

Message Text

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ACTION EB-08

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC IMMEDIATE 6569

INFO AMEMBASSY BANGKOK

USMISSION GENEVA

C O N F I D E N T I A L SECTION 01 OF 02 MANILA 09116

E.O. 11652: N/A

TAGS: ETRD, RP

SUBJECT: TEXTILES: US-GOP BILATERAL TEXTILES AGREEMENT

BANGKOK FOR USTEXTTEL

GENEVA FOR PHELAN

1. SUMMARY. US AND PHILIPPINE DELEGATION REACHED AN AGREEMENT ON NEW FIVE-YEAR TEXTILE BILATERAL EFFECTIVE JANUARY 1, 1978. FEATURES OF THIS BILATERAL ARE UNIQUE AND SHOULD MEET CONCERNS OF THE TEXTILE INDUSTRY OF BOTH SIDES. END SUMMARY.

2. AFTER ONE WEEK'S NEGOTIATIONS IN BAGUIO, U.S. AND GOP REACHED AGREEMENT ON NEW FIVE YEAR BILATERAL WHICH WILL TAKE EFFECT RETROACTIVELY TO JANUARY 1, 1978. THE PRINCIPAL FEATURE OF THIS AGREEMENT IS THE FACT THAT ALL CATEGORIES (106 NON-TRADITIONAL AND 17 TRADITIONAL) WILL HAVE SPECIFIC LIMITS WITH, AFTER AN ADJUSTMENT TO TAKE EFFECT IN THE FIRST AGREEMENT YEAR, NO CARRY OVER, CARRY FORWARD, SWING AND WITH REDUCED GROWTH. THE OVER RIDING PHILIPPINE CONCERN WAS TO OBTAIN IMMEDIATE "RELIEF" OVER
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THE EXISTING AGREEMENT 1978 LEVELS. AFTER THREE DAYS OF DISCUSSIONS, IT WAS CLEAR TO U.S. DELEGATION THAT THERE WAS NO WAY THE USG COULD MEET THESE REQUESTS WITHIN THE NORMAL NEGOTIATING FRAMEWORK WITHOUT VIOLATION OF OUR EQUITY OBLIGATION. ACCORDINGLY, KNOWING THAT THE U.S. INDUSTRY HAS BEEN CONCERNED OVER THE PAST 18 MONTHS WITH THE VARIABLES SUCH AS SWING AND CARRY OVER/CARRY FORWARD,

HEAD OF U.S. DELEGATION APPROACHED U.S. INDUSTRY ADVISORS LAST FRIDAY EVENING TO SEE IF THEY WOULD BE WILLING TO "BUY" THE INCREASES THE GOP SOUGHT IN RETURN FOR ELIMINATION OF THE VARIABLES FOR THE LIFE OF THE PROPOSED AGREEMENT. THE INDUSTRY ADVISORS EXPRESSED GREAT INTEREST IN THIS NOTION, SO ON SATURDAY MORNING, IN AN INFORMAL SESSION, U.S. DELEGATION PROPOSED THE 1978 LEVELS BE INCREASED BY APPROXIMATELY 25 PERCENT IN RETURN FOR WHICCC VARIABLES INCLUDING GROWTH SHOULD BE ELIMINATED.

3. THE PHILIPPINE DELEGATION WAS ATTRACTED BY THE IDEA, AND NEGOTIATIONS ENSUED OVER THE NEXT FOUR DAYS TO DETERMINE PRECISELY WHAT SHOULD BE THE U.S. PAYMENT FOR ELIMINATION OF THE VARIABLES. THE PHILIPPINE DELEGATION INITIALLY PROPOSED THAT THIS ADJUSTMENT AND TREATMENT BE EXTENDED ONLY TO 8 TO 12 CATEGORIES BUT, BY TUESDAY, IT WAS AGREED TO COVER MOST OF THE 106 CATEGORIES.

4. AGREEMENT WAS REACHED THAT THE ADJUSTMENT FORMULA (THE SO CALLED GRATIFICATION FACTOR) SHOULD BE .93 OF 1978 LEVELS MULTIPLIED BY 1.32 FOR COTTON AND MAN-MADE PRODUCTS. FOR WOOLD PRODUCTS, WITH SEVERAL EXCEPTIONS, THE GRATIFI-CATION FACTOR AGREED TO WAS .99 OF THE 1978 LEVEL TIMES 1.15 AS THE ENTRY LEVEL FOR 1978. THE COTTON AND MAN-MADE LEVELS WILL BE INCREASED BY 3 PERCENT FOR THE REMAINING FOUR YEARS AND THE WOOL LEVELS BY 1 FOR THE CONFIDENTIAL

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FOUR YEARS. THE AGGREGATE IS .93 OF THE 1978 LEVEL TIMES 1.25 FOR 1978 WITH 3 PERCENT GROWTH IN THE SUCCEEDING FOUR YEARS. IN ADDITION TO THE GRATIFICATION FACTOR BEING APPLIED TO ALL CATEGORIES THE PHILIPPINE SIDE ASKED FOR FURTHER INCREASES IN A SELECTED NUMBER OF CATEGORIES. WITH THE TACIT CONSENT OF THE U.S. ADVISORS, THE U.S. DELEGATION AGREED TO PARTIAL OR FULL FURTHER INCREASES IN THOSE SELECTED CATEGORIES IN RETURN FOR REDUCTION IN SOME OF THE FORMULA IN CATEGORIES OF GLOBAL SENSITIVITY TO THE U.S., THE RATIOS BEING BETWEEN 1 1/2 TO 2 TO 1, IN SUCH CATEGORIES AS 604, 649, 349, 340, 640, 633, 638, AND 639.

4. U.S. MAN-MADE FIBER AND WOOL SUIT INDUSTRY WAS TAKEN CARE OF BY MINIMUM INCREASES IN WOOL SUITS AND IN THE ESTABLISHMENT OF SUB-LIMITS IN THE WOVEN MAN-MADE FIBER SUIT CATEGORIES.

5. IN VIEW OF THE GRATIFICATION FORMULA, THERE ARE NO MERGERS BEYOND THAT OF THE EXISTING AGREEMENT AND THE MAY 17, 1978 AMENDMENT, THEREBY REMOVING A POTENTIALLY CONTENTIOUS PROBLEM.

6. COMMENT: THIS AGREEMENT IS UNPRECEDENTED IN TEXTILE TERMS. MAJOR U.S. OBJECTIVE (THE ELIMINATION OF THE "YO YO" EFFECT CAUSED BY THE VARIABLES) HAS BEEN MET WHILE, AT THE SAME TIME, THE USG HAS BEEN ABLE TO MEET WHAT ARE, IN ITS VIEW, THE GOP'S LEGITIMATE REQUESTS FOR INCREASES WITHOUT, REPEAT, WITHOUT VIOLATING THE EQUITY PRINCIPLES OF THE MFA AND THE VARIOUS BILATERALS NEGOTIATED HERETOFORE. SEPARATE GUIDANCE TO THE U.S. REP TO THE TSB IN GENEVA WILL BE PROVIDED WHEN THE DIPLOMATIC NOTES ARE EXCHANGED. WHILE AT FIRST GLANCE IT MIGHT APPEAR TO THIRD PARTIES THAT THE U.S. HAS NOT ABIDED BY THE MFA PRINCIPLES, IN FACT THE

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C O N F I D E N T I A L SECTION 02 OF 02 MANILA 09116

BANGKOK FOR USTEXTEL
GENEVA FOR PHELAN

USG HAS BEEN ABLE, BY THE UPWARD ACROSS THE BOARD ADJUSTMENT IN EXISTING LEVELS, TO MORE THAN OFFSET ANY THIRD PARTY CRITICISMS OF INEQUITY. THE PHILIPPINE PANEL IS GENUINELY PLEASED BY THE OUTCOME OF THESE NEGOTIATIONS, AND THE U.S. DELEGATION WAS GREATLY IMPRESSED BOTH BY THE PREPARATION OF THE GOP DELEGATION AND BY ITS ABILITY TO NEGOTIATE ON THE SPOT AND SEEK COMPROMISES. THE GOP DELEGATION HAD DONE ITS HOMEWORK AND AS A RESULT WAS ABLE TO WHEEL AND DEAL. THE U.S. SIDE, IN THE VIEW OF THE DELEGATION, HAS EQUALLY OBTAINED A HIGHLY SATISFACTORY AGREEMENT. END COMMENT.

7. MEMORANDUM OF UNDERSTANDING WILL BE CARRIED BACK TO WASHINGTON BY NEGOTIATING TEAM.TOUSSAINT

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